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TAGS: [ENRG](#) [EINV](#) [PGOV](#) [EU](#) [SENV](#) [GM](#)
SUBJECT: GERMAN ENERGY LEGISLATION COMPROMISES
COULD RESULT IN HIGHER PRICES AND MISSED CO2
REDUCTION TARGETS

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1. (SBU) SUMMARY: Six months after triumphantly presenting draft energy laws to meet aggressive global warming targets (reftel), coalition harmony has dissolved, resulting in watered down legislation that is likely to cost more and deliver less than initially expected. Parliamentary hearings were necessary to resolve disputes so that the legislation could move forward before the summer recess. In the end, four laws on combined heat and power (CHP), renewable energy (EEG), renewable heating and liberalization of the electric metering market received parliamentary approval on July 4 and will enter into force January 1, 2009. The Cabinet approved a second tranche of draft legislation on June 19 which will be submitted to Parliament after the summer recess. The lack of fiscal discipline could lead Germany to fail to meet its ambitious mid-term (2020) CO2 reduction targets. END SUMMARY.

2. Two days after the opening of the UN Climate Conference in Bali last December 3, an unusually harmonious CDU/SPD Coalition Cabinet passed a package of draft laws to combat global warming. The measures are part of the Integrated Energy and Climate Program (IECP) resolved by the Cabinet at its retreat in August 2007 to reduce Germany's CO2 emissions by 36.6 percent in comparison to 1990 levels by 2020. The 3.3 billion euro package covers a range of measures from tighter building insulation requirements to a CO2-based vehicle tax to energy legislation. Initiatives ranging from reducing power plant emissions, introducing energy efficiency standards for government procurement and legislation allowing smart meters to enable consumers to save energy have proved relatively uncontroversial; political jockeying has centered around legislation on combined heating and power (CHP), renewable energy (EEG), and renewable heating. The law on liberalizing the metering market had a smooth passage. Following are brief descriptions of controversial issues in the CHP, EEG and renewable heating law.

CHP Law - Efficient but Expensive

13. The update of the 2002 Combined Heating and Power (CHP) Act aims to double the CHP share from 12% to 25% by 2020, saving 15 million metric tons of CO₂. The law allocates a maximum of 750 million euros per year to promote CHP technology, which many believe to be unrealistically low. The Upper House of Parliament failed to convince the lower House to increase CHP funding to 950 million euro per year. Many experts believe the lack of adequate funding will ensure that CHP goals will not be met. In a compromise, the government must review the efficacy of the subsidy after two years.

EEG - Less Efficient But More Expensive

14. The revision of the existing Renewable Energies Law (EEG) aims to increase the share of renewable energy from just over 13% to between 25% and 30% by 2020, thereby saving 54.4 million metric tons CO₂. The EEG requires net operators to give priority to renewable energy and to guarantee prices considerably higher than those for conventional energy; the costs are passed on by net operators to consumers.

15. While solar energy accounts for only 3.5% of renewable energy (0.6% of total power generated), it cost the consumer 22.5% of total EEG costs in 2007. After a heated political debate, the revised EEG reduced the kWh price by between 8 and 10% from 2009 onwards, about the same as had been originally planned. RWI Essen, a leading economic research institute close to industrial consumers, calculated that the revised EEG subsidies are still too high and would save consumers only 1.3 billion euros by 2010. RWI advocated reducing guaranteed prices for solar energy by 30% in 2009, a move supported by many within the CDU. In the resulting internal CDU fight, advocates of the 30 percent reduction failed to overcome opposition from CDU environmentalists and the eastern German states, where many solar firms are located. Coalition discipline, however, prevailed in the parliamentary vote and the subsidies remained unchanged, which could ultimately prove to be an opportunity lost to fund other energy saving measures.

16. Wind is the oldest and largest renewable energy generator in Germany; wind-generated power grew by 28% in 2007. With more moderate guaranteed prices to suppliers it cost the consumer nearly 46% of total EEG costs while generating 59% of total renewable power. The original draft EEG reduced guaranteed rates; however Parliament accepted a later proposal from SPD Environment Minister Gabriel to raise rates instead. The revised EEG improves compensation for offshore wind generation going into operation by 2013. While onshore wind capacity is saturated, hopes have turned to offshore wind. To date, however, no offshore sites have gone into operation because of technological challenges.

Renewable Heating Law

17. The draft Renewable Heating Law aims to increase the share of renewable energy in heating from the current 6% to 14% in 2020, saving 9.2 million metric tons of CO₂. Funding would amount to 350 million euros in 2008 and rise to 500 million euros from 2009 onwards. New buildings from 2009 onwards must include renewable energy

for heating. The controversial requirement for heating systems in existing buildings to be upgraded to meet these stipulations was eliminated before the law even went for Cabinet approval. However, the law permits states to introduce their own requirements for investments in existing buildings.

Second Tranche of IECP Legislation Passes the Cabinet

¶18. On June 19 the Cabinet passed a second tranche of draft legislation which will be submitted for parliamentary approval following the summer recess. Main drafts concern reducing energy consumption in new buildings by 30% from 2009 onwards, increasing toll charges steeply to penalize trucks with heavy emissions, requiring tenants to pay a higher share of their heating bill according to actual consumption and accelerating the construction of long distance power lines to transport offshore wind energy. In some cases, the bills were watered down even before they went to the Cabinet. Controversial legislation to change the vehicle tax to a CO2 base has been postponed until 2010.

Comment: Quo Vadis?

¶19. Independent experts assessed the original August 2007 Meseberg CO2 reduction program as able to achieve 37% of the planned 40% reduction by 2020. However, the controversy surrounding some of the most important energy legislation and rising costs associated with implementation may make these targets politically impossible to achieve. A natural face-saving option lies in the fact that the 40% pledge was tied to the EU's agreement to reduce its own emissions by 30%, which hasn't happened. The Parliamentary Second Chamber chose not to delay the process further on July 4 by calling for the mediation committee, but has made further recommendations on some of the legislation. That aside, what is most striking about the debate over the current legislative package is the disappearance of the Grand Coalition's harmonious approach since December 2007. It is symptomatic of the increasing influence that the upcoming federal elections are having on policy across all major areas. END COMMENT.

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